1 Macro issues and policies

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This chapter deals with macro issues and policies relating to gradual retirement. It will attempt a definition of the term gradual retirement and a brief examination of some of the concepts underlying it. Our main purpose, however, will be to focus on the following major factors: demographic and pension prospects, labour market participation and the policy and practice of early retirement over almost the last two decades, new patterns of work and retirement, and finally recent public policies which reflect the emergence of new trends.

1.1 Demography

We shall not dwell here at any great length upon demographic factors since these are already very well-known. We would merely state in this context that they exercise crucially significant pressure on pension and health systems and on the labour market, and have most often been described in pessimistic terms. If things remain the way they are now, it is argued, the pressure demography exerts on our social security systems will become intolerable. The need to transfer an increasing amount of resources to the elderly, through pensions and health care, will have major consequences for the inter-generational distribution of income. As with many aspects of gradual retirement, the demographic situation differs significantly from country to country. Countries such as Germany, Japan and the Netherlands, which, in just 30 years, will have over one third of the population over the age of 60 will be subject to greater pressure than those with only 20 per cent or 25 per cent of over 60s.

In fact, however, in many respects enhanced life expectancy is highly positive, for the potentially catastrophic arithmetic of demographic projection must be viewed in the context of the enhanced physical and mental health of the aging population many of whose members will be able, and will desire, to remain active much later in life. Japan, with a population that has aged earlier than that of any other OECD country, is a good illustration of this point. The median age of its workers rose significantly in the eighties without any apparent loss of productivity.

By the end of the century, a number of European countries and Japan are expected to show a decrease in the absolute number of working age people. Thereafter, projections indicate that a progressively larger number of countries will begin to experience shrinkage of the working age population, particularly during the second and third decades. This will affect state pensions and welfare programmes which are financed largely from taxes and social security contributions paid by the working population. But, at the same time, it will create more potential for extension of working life. With increased life expectancy a pension designed to cover ten or fifteen years of retirement might generate intolerable upward pressure on contribution rates were it to be maintained over 25 years, especially in countries like France where currently the average level of pensions is almost as high as the average wage. Indeed, contributions and rates of taxation cannot continue to rise without significant repercussions for wages, for the competitiveness of businesses, and hence for employment. In addition, all problems arising from population aging are aggravated by reduced economic growth. Lower growth rates make it more difficult to secure jobs and to finance social security programmes. The number of people employed, productivity per worker and trends in their real earnings will all be key elements in coping with expenditure increase.

1.2 Pension provision

The Geneva Association, in choosing a metaphor to describe pension provision, has likened the income security structure to an edifice resting on three pillars to which it has been proposed a fourth one be added. The first is the compulsory state or basic pension usually known as social security. The second is the supplementary employer or occupational pension. The third is income from personal pensions, life insurance, individual savings and assets. And the proposed fourth pillar, in a sense the 'raison d'être' of the present study, is the option open to older people to work part-time with a partial pension in order to supplement the income from the other three sources. Our concern at this point is with the first three pillars and their relation to the fourth.

In Europe, Japan and the United States, basic pensions are financed on a pay-as-you-go basis, either through social security contributions or from taxes, while occupational pensions are financed by funding (with the exception of France). Public pension spending in Europe is currently higher than in the USA and Japan. It is, however, as N. Takayama will show in his chapter, set to rise considerably in Japan as well. As a percentage of GDP it ranges from 5 per cent in Japan to over 10 per cent in most of the EU countries selected for this study. The combination of an aging population and a declining work force is particularly alarming for public pensions. Under the assumption of constant rates of replacement (benefits as a percentage of labour earnings) and of labour force participation, public expenditure on pensions as a percentage of GDP would be expected to double across the OECD area between 1985 and 2040 (Holzmann, 1988). Since, for obvious economic reasons, this will be impossible to achieve, there will be a relative decrease of the size of the 1st pillar public pensions in most countries, and this is reflected in recent public pension reforms which have raised the pension age (or number of contribution years), and provided for a reduction over time in the relative level of pensions to wages.

Not all OECD countries have well-developed multi-pillar systems, since until recently, only the public pillar has been mandatory. Although the relative sizes of the mandatory and voluntary pillars – as measured by their relative shares of old people's income – differ widely, public pay-as-you-go plans still represent high proportions of the elderly's income. However, as the World Bank's 1994 Report observes, occupational and personal pensions have grown fast and there is also a significant trend towards replacing pay-as-you-go systems by funding, so as to relieve the pressure on the active population which, as we have seen, is decreasing relative to the dependent one. This trend towards funding is expected to continue, since in countries with flat-rate basic pensions (such as the Netherlands and the UK), there is obviously more need for supplementary second pillar provision – and hence for funding – than in Germany or France where basic pensions are earnings-related. It will be observed that, in some countries such as the UK and the USA, a proportion of the work force (at least a third) is still not covered by any form of second pillar pension provision. This means that, in these countries, state pension provision will continue well into the next century to be crucial for at least this third of the population, and important for the average citizen. The first pillar pension will have to be maintained at a reasonable level, and where, as in the UK, policies have been introduced to reduce it, it will sooner or later have to be restored to an acceptable level, unless second pillar provision is made compulsory with enough government support to make it viable as far as the average wage-earner is concerned.

As to the third pillar, it is well-known that the rate of personal savings of most OECD economies is far too low for that pillar ever to be able, for the average citizen at least, to constitute a significant source of income during old age. That is why, from the standpoint of pension financing, in the medium and long-term, a flexible extension of working life is seen as highly advisable and by the less optimistic as altogether unavoidable.

However, more crucial to the immediate issue of promoting gradual retirement are the portability of pension claims and the terms of pensions at end of career. Individual and defined-contribution pension claims are fully portable from one employer to another. Claims on the state pension are fully portable as well, because the schemes are nationwide. Defined-benefit plans operated at the firm or industry level have neither of these two characteristics, and are thus not fully portable. Limited portability hinders labour mobility, which is an impediment for forms of gradual retirement outside main employment. Moreover, if pension claims are not fully portable, because of long vesting periods, labour becomes less mobile. Arguments in favour of more funded systems see the latter not only as ways of diminishing inter-generational transfer, but also as a means of increasing internal and external labour market flexibility and of improving economic performance (see Holzmann, 1992; Bovenberg, 1994; Delsen, forthcoming; World Bank, 1994).

Finally, we come to the terms of pensions at end of career – and these will be analysed for each country. Suffice to say at this point that these terms, together with the degree of portability, are factors which can facilitate or hinder the development of gradual retirement. The final-salary, as opposed to average-salary, base upon which pension terms are frequently constructed in a number of countries (for example, the Netherlands, the USA and the UK) is a major obstacle to gradual retirement. An average-salary base of twenty years or more is gradual retirement neutral.

1.3 Labour market participation and early retirement

Over the last twenty years, in all industrialised countries, the employment situation has been characterised by an increasingly early exit from the labour market at end of career. While a continuous increase in life expectancy in good health and a steady extension of schooling for the young have been observed, employment has been entered into later and quitted earlier and, as a consequence, occupational life has shrunk considerably. In some countries such as France where the young enter employment especially late and the older worker leaves his or her job especially early, the average citizen now spends more time outside employment than within it!

A large number of OECD countries took special measures for older workers – non-wage income provision in the form of unemployment benefits, disability benefits and early retirement schemes – which have enabled older workers to withdraw from the labour market prior to being eligible for a public pension. These early retirement policies have resulted in decreasing rates of labour market participation which, as the chapters will show, have been exceptionally marked in France and the Netherlands, very marked in Germany, relatively less so in the UK and the USA and least of all in Japan and Sweden. Of the active male population in the 55 to 59 age-group in the first two of these countries, in 1993 less than 60 per cent were in employment, while this rate was around 20 per cent for those in the 60-64 age-group. At the other end of the spectrum, these rates for Sweden and Japan were respectively and approximately 80 and 50 per cent. As a consequence, there has been a growing gap between the statutory age of retirement – which is 65 in the countries studied except Japan and France where it is 60 – and the effective age at which workers leave the labour market, voluntarily or not. The country authors in Part II and III of this study will be examining this issue in some detail.

It is an established fact that the significant trend towards early retirement has been the result of a deep consensus – which we shall dub the 'old' consensus – part of a social contract between the State, enterprise, trade unions and the community. For the State, the main purpose of early retirement has been to reduce youth unemployment – which was high in the 1970s and 1980s – since in many schemes, at least until recently, there was a replacement condition. Moreover, it should be noted that, in most of the countries studied, the duration of unemployment benefit for older workers has lengthened, the latter not being required, prior to retirement, to register at labour offices. This has tended to result in an under estimation of unemployment. For enterprise, early retirement has had a two-fold advantage – productivity can be enhanced through modernising the process of production and the firm restructured without the cost and the embarrassment of rising redundancies. For the trade unions, it has been a coveted prize in the long struggle to lower the retirement age and so leave workers, who so often started their working life young and frequently in strenuous jobs, some years of respite in good health. And last, the average citizen has greatly benefitted from this trend particularly in countries where the financial terms of early retirement have been generous.

1.4 New patterns of employment and retirement

There is little doubt that some of the main trends observed in employment over the last two decades constitute very favourable factors for gradual retirement. The development of services as a key factor of the modern economy has radically altered the existing work environment and in some respects created an entirely new one. If we consider not only tertiary-sector service activities *per se* but also service funtions in manufacturing and agriculture (such as research, planning, marketing, maintenance, storage, quality control, safety measures, distribution), between 70 and 80 per cent of jobs in our economies are now in services, and this trend is set to increase further in the years to come.

The very nature of service activities has brought into being a widening range of flexible job options. The rigidity that was so characteristic of the older manufacturing production chain contrasts starkly with the suppleness of the work patterns, flexible in both time and space, of our information age. There has, as a result, been an overall growth in the amount of work performed in part-time jobs, which, in some countries such as the Netherlands, the UK and Sweden, now constitute almost a third of jobs. Most of these part-time jobs are no longer of the old 'industrial' type (i.e. related to lower and frequently unprotected employment profiles) but increasingly involve the deployment of qualified experience which, for various reasons, people cannot or will not exercise in a full-time job.

Flexible work, a category which includes also self- and temporary employment, will become the norm in the professions and even in management over the next fifteen or twenty years. For instance, millions of people will be working from home at some time during the week, achieving a considerable improvement in productivity and a considerable reduction in office and transport costs. Moreover in most countries, especially in the USA, Japan and the UK, the frequency of part-time and self employment increases with age. Often self employment assists individuals to remain economically active.

In most of the countries studied, employees in the services sector tend to retire later than those in the secondary sector. Statistics, both in the USA and in Europe, provide evidence that employees in manufacturing retire earlier than in the service sector (e.g. French Ministry of Labour, 1994). One reason for this trend is certainly that restructuring has so far been more radical in manufacturing industries and has led to stronger early retirement policies. Another important reason is that the content of work in most service activities is increasingly intellectual or mental. This crucial fact is supported by scientific studies which show that mental abilities decrease much more slowly with age than physical ones and that, as a result, productivity declines with age faster in manual work than in most white-collar activities (Charness, 1985). That is why qualified employees tend to retire later than non-qualified ones, both productivity, and frequently motivation, remaining high much later in life.

1.5 Gradual retirement

In the past, most workers, whether peasants or craftsmen, used to retire gradually, i.e. in stages. With diminishing physical strength, they would work less and less. Gradual retirement of this kind was, as it were, a natural and progressive, sometimes imperceptible, downsizing of the workload and even today many self employed people – doctors, architects, lawyers, craftsmen and farmers – would, given the choice, not dream of retiring in any other way. However, with the industrial revolution, work conditions had to be regulated and progressively the idea of retiring people when they grow old and less useful became established. Retirement came to be fixed at a certain age, earlier, obviously, for miners and others doing physically demanding jobs than for clerks. Almost everywhere, however, retirement was soon to be viewed as 'overnight' and irrevocable – 'la retraite couperet' or guillotine retirement, as the French were later to call it. Most people did not live for many years after retirement; a few years of rest, hopefully in good health, before death was all that could be expected. More recently, however, while the age of retirement has been lowered, so has life expectancy been increasing rapidly which means that, especially since the last World War, retirement has ceased to be a residue and has progressively become a period of life in its own right, a new stage and a fresh departure that can be planned and prepared for. And so, little by little, the idea of flexible retirement, of a transition period between a full-time career and full retirement, better suited to the needs of both the individual and the firm, has come into being.

Gradual retirement, often called phased, partial or part-time retirement, has been advocated, introduced and used for various reasons. By reducing work hours according to graduated and agreed schedules, it constitutes a way of avoiding the pension shock, following an abrupt transition from full-time work to full pensioning; it is also a way of achieving greater flexibility and individualisation of working life by distributing work and free time more evenly over the latter part of the occupational cycle, and a potential means of redistributing the available work supply. It further provides a 'soft' form of personnel reduction, a means of reducing growing exclusion of older employees from the labour force and, for management, cost-effective opportunities to retain people with valuable corporate knowledge and precious technical skills. Finally, actuarially, it reduces retirement and unemployment costs not only by reducing the relative volume of benefits but also by lengthening the contribution period and by increasing the contribution base (Delsen, 1990; Reday-Mulvey, 1993).

Many formulae for workload downsizing exist and the transition periods during which this occurs can run for anything from one to ten years. As we shall see in the country chapters, approximately five years is the transition period most commonly encountered in the countries studied.

But gradual retirement, it should be understood, can mean a reduction or an extension of working life. In Sweden, where the retirement age has long been a relatively late one at 67, we shall see that gradual retirement was originally designed to facilitate a reduction in working life. In France, to mention another example, current public policies designed to reverse the early retirement trend use gradual retirement as a kind of part-time early retirement in substitution of full early retirement. The net effect of such policies, however, is to extend working life. The same may be said of Japan, as indeed of most of the countries studied. It is, in fact, the editors' contention that gradual retirement constitutes a flexible extension of work life, and should be promoted as such.

Often, at present, a bridge between the official and the effective retirement age, it is, we believe, destined to become the standard mode for extension of working life beyond any notional retirement age. It is precisely for this reason that the authors strongly advocate that there be no overall and absolute age limit to work and employment.

1.6 New public policies towards reversing the early retirement trend

Already in the early eighties, there were signs that the 'old' consensus on early retirement was not as solid as it had been; the State was becoming anxious about its cost. And although the change occurred at different times in different OECD countries – earlier in countries like France where it had started early and had been strongest or in Japan where there is an established tradition of working late – there was generally a rising awareness that the early retirement trend could not continue for ever.

In many countries apprehensions about intolerable future pressure on pension systems became particularly acute – as early as 1983, the USA passed a law to raise the official retirement age. Most countries (Germany, Japan, France, Italy, Sweden, the UK) have followed suit by increasing either the pension age or the number of contribution years to social security, and by making conditions for retirees less favourable.

With regard to the specific issue of this study, public legislation has been passed in most countries allowing for more flexible retirement, the possibility of combining a pension with earnings from employment and various possibilities for phased retirement, or what we call gradual retirement. During recent years, six EU Member States have adopted measures for gradual retirement: Denmark (1988, but reinforced in 1995), France (1988), Germany (1989, effective from 1992), Italy, Luxembourg and Spain. The new Member States, Sweden, Finland and Austria, adopted measures respectively in 1976, 1987 and 1993. Japan, for its part, adopted legislation in 1986, reinforced by measures in 1994. The overall trend of these public reforms is clear: they enable mature workers to leave employment gradually and remain active later. As we shall see, gradual retirement goes some way towards bridging the gap between the effective age and the statutory age for retirement, particularly in cases where the age for admission to phased retirement is lower. The advantage of gradual retirement over other forms of policy (early retirement, unemployment or invalidity insurance) much used over the last two decades is, in our view, that gradual retirement can be built into retirement schemes and, thereby, is more easily incorporated into overall employment policy, and can thus be considered a 'permanent' system.

For its part, enterprise is slowly becoming wise to the fact that jettisoning older employees sometimes incurs a net and irreparable loss of skills and corporate expertise. Early retirement is coming to be seen as a short-term or quick-fix solution to the problems of redundancies and of an aging active population, but also as a costly solution in terms of its increasing the rate of contribution for welfare. However, it will be shown how much most corporate policies, thus far, are still greatly affected by the early retirement culture and difficult labour market conditions.

Many trade unions are becoming aware that the needs of the employee in the service economy are different from those of the worker in manufacturing, and that, with entrenched aging of the work force, continuing training and adjusted work conditions are issues to be addressed. As to the older workers themselves, surveys show that they often desire some kind of transition between a full-time career and full retirement even if the vast majority still expect eventually to enter the latter at an earlier age and on very generous terms.

At the time of writing, therefore, a 'new' consensus appears to be emerging to replace the 'old', but the process of its formulation, by no means ubiquitous, varies from one country to the next, as our comparison of OECD countries will show. Although overall there has been a relative bottoming-out of the fall of employment rates for older workers, we shall see that, where not securely articulated into company policies, public policies have not yet necessarily produced the expected results. Raising the retirement age alone is, for example, decidedly no more than a partial answer to the problem.

In this context, the main macro questions which the country chapters will attempt to answer are the following: What incentives have been provided for implementing new public policies and what have been the results? How can the current gap between the broader economic and social design of public policy and the needs of the corporation as reflected in company policies be narrowed, and how can the partnership between the State and enterprise be improved? What will be the shape of the 'new' consensus and how can it be developed in the years to come?

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